

STUART MUNICIPAL UTILITIES  
STUART, IOWA

INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENT  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

Year Ended June 30, 2015

## TABLE OF CONTENTS

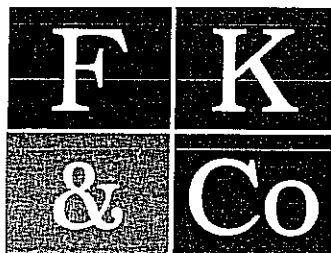
	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-9
Financial Statement:	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A            11
Notes to Financial Statement	12-16
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance - Budget and Actual (Cash Basis)	18
Notes to Other Information - Budgetary Reporting	19
Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1            21
Note Maturities	2            22
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government</u> <u>Auditing Standards</u>	23-24
Schedule of Findings	25-28

# STUART MUNICIPAL UTILITIES

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Fry	Chairperson	January 1, 2020
Dennis Morgan	Trustee	January 1, 2019
Kristen Renslow	Trustee	January 1, 2017
Steve Gilman	Trustee	January 1, 2018
John Gulbranson	Trustee	January 1, 2018
Doug Christensen	Superintendent of Utilities	Indefinite
Ashraf M. Ashour	City Administrator/Utility Treasurer	Indefinite
Clint Hight	Attorney	Indefinite

## Stuart Municipal Utilities



# FALLER, KINCHELOE & CO, PLC

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## Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Stuart Municipal Utilities:

#### Report on the Financial Statement

We have audited the accompanying financial statement of the business type activities and each major fund of the Stuart Municipal Utilities, Stuart, Iowa, (Utilities) as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Utilities financial statement listed in the table of contents.

#### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on this financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the Utilities as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the Utilities financial statement. The supplementary information included in Schedule 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Utilities' Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 18 through 19 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2016, on our consideration of Utilities internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Utilities internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa  
January 28, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Stuart Municipal Utilities (Utilities) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Utilities financial statement, which follows.

### 2015 FINANCIAL HIGHLIGHTS

The Utilities' total receipts increased 2%, or approximately \$58,000, from fiscal year 2014 to fiscal year 2015. The Utilities increased water rates in October, 2014.

The Utilities' total disbursements increased 2%, or approximately \$57,000, from fiscal year 2014 to fiscal year 2015.

The Utilities total cash basis fund balances increased 9%, or approximately \$179,000, from June 30, 2014 to June 30, 2015.

### USING THIS ANNUAL REPORT

The Utilities has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Utilities' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Utilities' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Utilities' receipts and disbursements and whether the Utilities' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Utilities' budget for the year.

Supplementary Information includes the Schedule of Indebtedness and the Note Maturities which provides details of the Utilities' debt at June 30, 2015.

## FINANCIAL ANALYSIS OF THE UTILITIES

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balances*

The purpose of the statement is to present the receipts received by the Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balances at year end. Over time, readers of the financial statement are able to determine the Utilities' financial position by analyzing the increase and decrease in cash balances.

Receipts include metered and bulk water and electric sales, fees for upkeep and/or upgrade of individual service lines, turn on/off fees, rent for space, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2015 and June 30, 2014 is presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2015	2014
<b>Receipts:</b>		
Use of money and property	\$ 9,033	5,148
Charges for service	2,371,460	2,518,641
Sale of capital assets	69,015	-
Loan repayment	40,000	-
Miscellaneous	191,926	99,247
Total receipts	2,681,434	2,623,036
<b>Disbursements:</b>		
Business type activities	2,125,292	2,078,023
Debt service	377,623	368,061
Total disbursements	2,502,915	2,446,084
Net change in cash balance	178,519	176,952
Cash balance beginning of year	2,071,267	1,894,315
Cash balance end of year	\$ 2,249,786	2,071,267
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Bond reserve funds	\$ -	270,521
Improvements	-	12,024
Insurance	-	233,774
Meter deposit account	46,022	36,867
Insufficient checks	-	8,167
Reserve account	346,160	-
Improvement account	240,000	-
Loan reserve	166,667	-
Total restricted cash basis fund balance	798,849	561,353
Unrestricted	1,450,937	1,509,914
Total cash basis fund balance	\$ 2,249,786	2,071,267



The Utilities' unrestricted cash balance is available for use in the routine operation of the distribution and administrative areas of the Utilities and for capital improvements in the distribution area. The Utilities' restricted cash balances are restricted funds for the repayment of the note principal and interest payments, customer deposits, improvement account and a loan reserve account.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$27,257 to \$119,682, due primarily to an increase in water rates in October, 2014.
- The Enterprise, Electric Fund cash balance increased \$151,262 to \$2,130,104, due primarily to increased usage during the fiscal year.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Utilities did not amend its budget.

The Utilities total receipts were approximately \$242,000 more than budgeted. The Utilities total disbursements were approximately \$166,000 more than budgeted for the year.

#### **DEBT ADMINISTRATION**

At June 30, 2015, the Utilities had \$2,425,000 in revenue notes outstanding, compared to \$2,695,000 at June 30, 2014.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Utilities appointed officials considered many factors when setting the fiscal year 2016 budget, including water main replacements, upkeep of current mains and fees that will be charged.

Current economic conditions beyond the Utilities Trustees control play a significant role in the daily operations of the distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the distribution of water.
- The need to maintain up-to-date technology at a reasonable cost.

#### **CONTACTING THE UTILITIES FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities finances and to show the Utilities accountability for the money it receives. If you have questions about this report or need additional information, contact Ashraf Ashour, City Administrator, 119 E. Front Street, Stuart, IA 50250.

## Financial Statement

## STUART MUNICIPAL UTILITIES

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES

As of and for the year ended June 30, 2015

	Water	Electric	Total
Operating receipts:			
Charges for service	\$ 737,688	1,633,772	2,371,460
Miscellaneous	70,417	121,509	191,926
Total operating receipts	808,105	1,755,281	2,563,386
Operating disbursements:			
Business type activities	605,841	1,519,451	2,125,292
Total operating disbursements	605,841	1,519,451	2,125,292
Excess of operating receipts over operating disbursements	202,264	235,830	438,094
Non-operating receipts (disbursements):			
Interest on investments	574	2,257	2,831
Rental income	2,400	3,802	6,202
Sale of capital assets	1,565	67,450	69,015
Loan repayment	-	40,000	40,000
Debt service	(179,546)	(198,077)	(377,623)
Net non-operating receipts (disbursements)	(175,007)	(84,568)	(259,575)
Change in cash balances	27,257	151,262	178,519
Cash balances beginning of year	92,425	1,978,842	2,071,267
Cash balances end of year	\$ 119,682	2,130,104	2,249,786
<b>Cash Basis Fund Balance</b>			
Restricted for:			
Meter deposit account	\$ 12,427	33,595	46,022
Reserve account	177,565	168,595	346,160
Improvement account	90,000	150,000	240,000
Loan reserve	-	166,667	166,667
Total restricted cash basis fund balance	279,992	518,857	798,849
Unrestricted	(160,310)	1,611,247	1,450,937
Total cash basis fund balances	\$ 119,682	2,130,104	2,249,786

See notes to financial statement.

STUART MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Stuart Municipal Utilities (Utilities) is a component unit of the City of Stuart, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a five-member Board of Trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Utilities are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

The Utilities reports the following major proprietary funds:

- The Enterprise, Water Fund accounts for the operation and maintenance of the Utilities water system.
- The Enterprise, Electric Fund accounts for the operation and maintenance of the Utilities electric system.

C. Basis of Accounting

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Fund Balance

Funds set aside for the meter deposit account, reserve account, improvement account and loan reserve are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the business type activities function.

Note 2. Cash and Cash Equivalents

The Utilities' deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Note 2. Cash and Cash Equivalents (continued)

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

The Utilities has no investment policy, even though an investment policy is required pursuant to Chapter 12B of the Code of Iowa.

Note 3. Revolving Loan Fund Agreement

The Utilities received a Rural Economic Development Grant for \$300,000, combined with a local match of \$60,000, making a total of \$360,000 available to establish a revolving loan fund during fiscal year 2010. The Utilities made a loan for \$360,000 in fiscal year 2010. The following documents future receipts in relation to this revolving loan fund:

Year Ending June 30,	Amount Due
2016	\$ 40,000
2017	40,000
2018	40,000
2019	40,000
	<u>\$ 160,000</u>

There is no provision for interest in relation to this loan. Total receipts from this loan was \$40,000 in fiscal year 2015. As of June 30, 2015, the Utilities has \$166,667 available in funds from this grant for lending in relation to this revolving loan fund.

Note 4. Revenue Notes Payable

Annual debt service requirements to maturity for water revenue and electric revenue notes are as follows:

Year Ending December 31,	Water Revenue Capital Loan Notes		Electric Revenue Improvement Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 125,000	49,723	125,000	42,840	250,000	92,563
2017	130,000	44,597	125,000	39,965	255,000	84,562
2018	135,000	39,203	130,000	36,652	265,000	75,855
2019	140,000	33,532	135,000	32,882	275,000	66,414
2020	145,000	27,583	140,000	20,495	285,000	48,078
2021-2024	485,000	43,518	610,000	60,980	1,095,000	104,498
	<u>\$ 1,160,000</u>	<u>238,156</u>	<u>1,265,000</u>	<u>233,814</u>	<u>2,425,000</u>	<u>471,970</u>

Note 4. Revenue Notes Payable (continued)

Water Revenue Capital Loan Notes

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay \$2,000,000 in water revenue capital loan notes issued in 2007. Proceeds from the notes provided financing for the construction of water main replacements, and to refund an older debt issue. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 87 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,398,156. For the current year, principal and interest paid and total customer net receipts were \$174,583 and \$202,264, respectively.

The resolutions providing for the issuance of the water revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the water system and the note holders hold a lien on the future earnings of the water system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 100% of the principal and interest of all outstanding notes and bonds due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue note and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the notes.
- (d) A total of \$177,565 shall be maintained in a reserve account. The account is to be used solely for the purpose of paying principal and interest on the notes if funds are insufficient in the sinking account.
- (e) A total of \$90,000 shall be maintained in an improvement account.
- (f) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes, and then can be used for any lawful purpose.

The Utilities water reserve and improvement accounts were deficient by \$160,310 at June 30, 2015. Additionally, the sinking account was not used in the fiscal year.

Electric Revenue Improvement Capital Loan Notes

The Utilities has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,875,000 in electric revenue improvement capital loan notes issued in 2010. Proceeds from the notes provided financing for the improvements and extension to the electric system, and to refund an older debt issue. The notes are payable solely from electric customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 84 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,498,814. For the current year, principal and interest paid and total customer net receipts were \$195,840 and \$235,830, respectively.

Note 4. Revenue Notes Payable (continued)

The resolutions providing for the issuance of the electric revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the electric system and the note holders hold a lien on the future earnings of the electric system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding notes and bonds due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a electric revenue note and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the notes.
- (d) A total of \$168,595 shall be maintained in a reserve account. The account is to be used solely for the purpose of paying principal and interest on the notes if funds are insufficient in the sinking account.
- (e) A total of \$150,000 shall be maintained in an improvement account.
- (f) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the electric system, may be used to pay or redeem any notes, and then can be used for any lawful purpose.

The sinking account was not used in the fiscal year.

Note 5. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6. Contracts

The Utilities is one of 15 municipal utility members of the South Iowa Municipal Electric Cooperative Association (SIMECA). SIMECA is a member of the Central Iowa Power Cooperative (CIPCO).

SIMECA is organized to purchase, generate, transmit, or distribute electric energy and to develop and establish safety programs for the benefit of its municipal members. The Utilities signed purchasing agreements with SIMECA in 1986, 1994, 2006 and a new long-term agreement in 2013. SIMECA has contracted with CIPCO for the electrical power and transmission needs of its members. SIMECA and CIPCO have agreed to a new contract through May 31, 2053. Profits from SIMECA are returned to its members as patronage refund dividends. There are no minimum payments required by this contract.

The Utilities purchases water for resale from Xenia Rural Water District. The Utilities can purchase a maximum of 500,000 gallons per day. The contract period goes through year 2040.

The Utilities have the ability to generate its own electricity and pump its own water. However, due to financial and availability concerns, the Utilities purchases most of its electricity and water from SIMECA and Xenia Rural Water District, respectively.

**Note 7. Deficit Balance**

The Enterprise, Water Fund had a deficit unrestricted balance of \$160,310 at June 30, 2015. This deficit will be eliminated through an increase in water rates.

**Note 8. Commitment**

As explained in note 3 above, as of June 30, 2015, the Utilities has \$166,667 available to lend from the revolving loan fund to qualified applicants.

**Note 9. Subsequent Events**

The Utilities has evaluated subsequent events through January 28, 2016, which is the date that the financial statement was available to be issued.



## Other Information

STUART MUNICIPAL UTILITIES

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -  
BUDGET AND ACTUAL (CASH BASIS)  
OTHER INFORMATION

Year ended June 30, 2015

	Actual	Budgeted Amounts	Actual to Budgeted Variance
Receipts:			
Use of money and property	\$ 9,033	11,623	(2,590)
Charges for service	2,371,460	2,186,046	185,414
Miscellaneous	300,941	241,579	59,362
Total receipts	2,681,434	2,439,248	242,186
Disbursements:			
Business type activities	2,502,915	2,337,377	(165,538)
Change in cash balance	178,519	101,871	76,648
Cash balance beginning of year	2,071,267		
Cash balance end of year	\$ 2,249,786		

See accompanying independent auditor's report.

## STUART MUNICIPAL UTILITIES

### NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2015

The Stuart Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the business-type activities function.

## Supplementary Information

## STUART MUNICIPAL UTILITIES

Schedule 1

## SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Revenue Notes -			
Water Revenue Capital Loan Notes	12/01/07	3.75-4.45%	\$ 2,000,000
Electric Revenue Improvement Capital Loan Notes	12/30/10	.95-4.05%	1,875,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
12/01/07	\$ 1,280,000	-	120,000	1,160,000	54,583	-
12/30/10	1,415,000	-	150,000	1,265,000	45,840	-
	<u>\$ 2,695,000</u>	<u>-</u>	<u>270,000</u>	<u>2,425,000</u>	<u>100,423</u>	<u>-</u>

See accompanying independent auditor's report.

## STUART MUNICIPAL UTILITIES

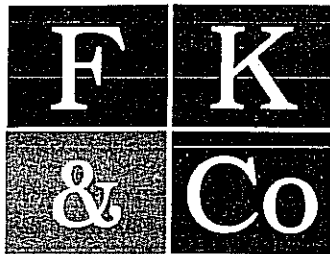
Schedule 2

## NOTE MATURITIES

June 30, 2015

Year Ending June 30,	Water Revenue		Electric Revenue Improvement		
	Capital Loan Notes		Capital Loan Notes		
	Issued December 1, 2007		Issued December 30, 2010		
	Interest		Interest		Total
	Rates	Amount	Rates	Amount	
2016	4.10%	\$ 125,000	2.50%	\$ 125,000	250,000
2017	4.15%	130,000	2.65%	125,000	255,000
2018	4.20%	135,000	2.90%	130,000	265,000
2019	4.25%	140,000	3.25%	135,000	275,000
2020	4.30%	145,000	3.50%	140,000	285,000
2021	4.35%	155,000	3.65%	145,000	300,000
2022	4.40%	160,000	3.80%	150,000	310,000
2023	4.45%	170,000	3.95%	155,000	325,000
2024	-	-	4.05%	160,000	160,000
		<u>\$ 1,160,000</u>		<u>\$ 1,265,000</u>	<u>2,425,000</u>

See accompanying independent auditor's report.



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of the  
Stuart Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the business-type activities and each major fund of the Stuart Municipal Utilities, Stuart, Iowa (Utilities), as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Utilities financial statement, and have issued our report thereon dated January 28, 2016. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) and (E) to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### Utilities Responses to the Findings

The Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa  
January 28, 2016



STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Findings Related to the Financial Statement:

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, bank accounts are not reconciled by an individual who does not handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Stuart Municipal Utilities (Utilities) should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utilities could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will consider this.

Conclusion – Response acknowledged.

- (B) Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The Utilities does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the Utilities continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

- (C) Timely Deposits – Instances were noted where utility receipts appeared to be deposited to the bank 2-3 weeks after receipt. For increased internal control purposes, utility receipts should be deposited on a timelier basis, preferably daily.

Recommendation – We recommend the Utility deposit receipts to the bank on a daily basis.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2015

- (D) Meter Deposits – The Utility accounting system is keeping track of the meter deposits on hand, by customer. However, there is no reconciliation of the dollar value of the detailed list of meter deposits on hand with the cash balance in the meter deposit account.

Recommendation – The Utility should implement procedures to ensure the meter deposit amounts by customer are identified. In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system on a monthly basis.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (E) Chart of Accounts - The Utilities has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on August 22, 2014. As a result, material adjustments were made to the accounting records in order to properly classify certain receipts and disbursements.

In addition, the Utility appears to be maintain utility funds which do not appear to have a defined purpose, or appear to be unneeded.

Recommendation – The Utilities should implement procedures to ensure all receipts and disbursements are properly classified in the accounting records. In addition, to provide better financial information and control, the COA, or its equivalent, should be followed. The Utility should also review all funds and eliminate unneeded funds.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2015

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Stuart includes an amount for the Stuart Municipal Utilities (Utilities). Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the business type activities function of the Utilities.

Recommendation – The budget should have been amended before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- (4) Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (7) Deposits and Investments - Instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the investment requirements were noted as described below.

The Utilities did not have an investment policy in effect during the fiscal year, as required by Chapter 12B of the Code of Iowa.

Recommendation – The Utilities should establish an investment policy which complies with the provisions of Chapter 12B of the Code of Iowa

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (8) Revenue Bonds – Instances of non-compliance with the water revenue bond requirements for the fiscal year ended June 30, 2015 were noted:
- At June 30, 2015, the Utilities water revenue reserve and improvement account balances were not maintained at an amount equal to the account requirements required by the provisions of the water revenue capital loan notes resolutions. At June 30, 2015, the balance in the water revenue reserve and improvement account balances were deficient by \$160,310.

# STUART MUNICIPAL UTILITIES

## SCHEDULE OF FINDINGS

Year ended June 30, 2015

- The water revenue capital loan notes resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. We noted that the Utility did not maintain a sinking account for the water revenue capital loan notes.
- The electric revenue improvement capital loan notes resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. We noted that the Utility did not maintain a sinking account for the electric revenue improvement capital loan notes.

Recommendation – The Utilities should consult legal counsel to determine the disposition of these matters, and should implement procedures to ensure water revenue bond and electric revenue bond requirements are met.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (9) Utility Rates – Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. The water rates were increased in fiscal year 2015. However, the new rates as established in the resolution were not published in the newspaper by the Utility.

Recommendation – The Utilities should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa.

Response – We will establish water utility rates by resolution of the trustees, and publish them accordingly.

Conclusion – Response acknowledged.

- (10) Deficit Fund – The unrestricted fund balance in the Enterprise, Water Fund at June 30, 2015, was negative \$160,310.

Recommendation – The Utilities should implement procedures to ensure this fund is a positive balance in the future.

Response – We have raised our rates in an attempt to correct this situation.

Conclusion – Response acknowledged

- (11) Disbursements – Our review noted that the Utility does not require supervisors to document their review and approval of payment for travel reimbursements prior to submittal to the Board for payment.

Recommendation – The Utilities should implement procedures to ensure all travel reimbursements are approved by a supervisor prior to submittal to the Board for payment.

Response – This will be implemented.

Conclusion – Response acknowledged.